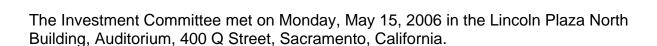


# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

MAY 15, 2006



The meeting was called to order at approximately 9:00 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Philip Angelides, represented by John Hiber
Marjorie Berte
Robert F. Carlson
Rob Feckner
Michael Navarro, represented by Debbie Endsley
Tony Oliveira
Mike Quevedo, Jr.
Kurato Shimada
Maeley Tom
Steve Westly, represented by Karen Greene Ross

Board Members excused:

Priya Mathur

### AGENDA ITEM 2 – APPROVAL OF APRIL 2006 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the April 17, 2006 Open Session minutes be approved as presented.

### New Chief Investment Officer

Russell Read, incoming Chief Investment Officer, was introduced and welcomed to CalPERS. He will officially join CalPERS on June 1, 2006.

### **AGENDA ITEM 3 - REAL ESTATE**

There were no items to report.

AGENDA ITEM 4 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM There were no items to report.

# AGENDA ITEM 5a – GLOBAL EQUITY, Emerging Market Manager Company Reports

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item.

The annual Geopolitical and Investability Screening Reports were presented. The emerging equity marketing managers reported on portfolio holdings compared with geopolitical and investability factors and responded to questions from the Committee. The manager representatives were:

- Dimensional Fund Advisors –Sonya Park, Akbar Ali, and Michelle Lapoula
- Genesis Asset Managers Catherine Vlasto and Karen Yerburgh
- Alliance Bernstein International Bonnie Orlowski and Henry D'Auria

The Committee provided input regarding preferred level of detail for future reports regarding manager performance data and staff's evaluation of the manager's performance.

The Committee accepted the information report.

# AGENDA ITEM 5b – GLOBAL EQUITY, Selection of International Developed and Emerging Market Equity Managers for Spring-Fed Pools

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

At its August 15, 2005 meeting, the Investment Committee approved the issuance of a Request for Proposal (RFP) with Spring-Fed Pool features for international developed and emerging markets equity managers. Based on the result of the RFP process, staff and Wilshire Associates recommended the following managers for inclusion in the Spring-Fed Pools.

### <u>International Developed Market Equity Managers</u>

Axa Rosenberg Investment Management Batterymarch Financial Management Fidelity Management Trust Company Goldman Sachs Assets Management

PanAgora Asset Management State Street Global Advisors The Boston Company

### **Emerging Market Equity Managers**

Batterymarch Financial Management Lazard Asset Management Pictet Asset Management Robeco Institutional Asset Management

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve seven managers for inclusion in the international developed market equity Spring-Fed Pool and four managers for inclusion in the emerging market equity Spring-Fed Pool, and approve the use of annual review contracts. The managers are listed above.

# AGENDA ITEM 5c – GLOBAL EQUITY, Update on Investments in Companies Doing Business in Sudan

Anne Stausboll, Interim Chief Investment Officer, Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item. Staff provided an update on progress in implementing a constructive engagement plan for companies doing business in Sudan. A proposed CalPERS Position Statement regarding this issue was presented and it was noted that legislation had been introduced that would require CalPERS and CalSTRS to divest of investments in companies with business operation in Sudan (see Item 8a).

There was discussion regarding the proposed Position Statement, revisions to the statement, and possible impact of the legislation.

Peter Mixon, General Counsel, responded to questions from the Committee regarding indemnification for costs, liability, and losses arising from legislation requiring divestment.

On **MOTION** by Mr. Feckner and **SECONDED** to adopt the proposed Position Statement regarding companies doing business in Sudan, with the addition of a new item 6 and an additional item 9.

Additional changes were suggested and accepted by the maker of the motion.

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to change new item 6 to include indemnification of CalPERS.

The main motion **CARRIED**. The final revised Position Statement is attached.

## AGENDA ITEM 5d – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, provided an update regarding:

- Roundtable on Internal Control Reporting and Auditing Provisions Staff attended the meeting that was held at SEC in Washington, DC on May 10. The purpose of the roundtable was to allow the SEC and the PCAOB to obtain feedback about the second year experiences with reporting and auditing requirements of the Sarbanes-Oxley Act of 2002.
- Home Depot Shareowner Proposal CalPERS will be supporting a shareowner proposal that would allow shareowners to approve, on an advisory basis, the report of the Leadership, Development and Compensation Committee, which would lay out the compensation for the named executives at Home Depot.
- UnitedHealth Group Proxy Voting CalPERS withheld its vote for all of the directors
  up for reelection at UnitedHealth Group because of the lack of disclosure and
  transparency on executive compensation practices, as well as the lack of board
  oversight at the company.

The Committee accepted the information report.

### AGENDA ITEM 6a – GLOBAL FIXED INCOME, External High Yield Manager Annual Review

Curtis Ishii, Senior Investment Officer, Kevin Winter, Senior Portfolio Manager, and Todd Smith, Investment Officer, provided an overview of the performance of the managers. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** to renew the contracts for all four of CalPERS' external high yield managers for a period of one year. The four managers are:

- Highland Capital Management L.P.
- ING Ghent Asset Management, LLC
- Nomura Asset Management Inc.
- Pacific Investment Management Company

### AGENDA ITEM 6b - GLOBAL FIXED INCOME, Alpha Currency Initiative

Curtis Ishii, Senior Investment Officer, and Eric Busay, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

At the March 13, 2006 meeting staff presented an information item regarding the proposed Currency Strategic Plan. Staff provided additional details, proposed next steps, and recommendations to implement an alpha currency pilot program. Appropriate policy revisions to include the alpha currency initiative will be considered at the August Policy Subcommittee meeting. Staff will inform the Committee prior to actual implementation of the pilot.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to direct staff to proceed with a pilot program for an Internal Alpha Currency Overlay Portfolio with policy changes to be brought before the Policy Subcommittee.

# AGENDA ITEM 7a – CalPERS TOTAL FUND, Executive Search Pool Budget Augmentation

Anne Stausboll, Interim Chief Investment Officer, reported that the item would be postponed pending resolution of technical contract issues.

### AGENDA ITEM 8a – LEGISLATION, Assembly Bill 2941 (Koretz) – Sudan Divestment

Lisa Marie Hammond, Chief, Office of Governmental Affairs, presented the item.

This bill would prohibit the CalPERS and the CalSTRS from investing in a company with business operations in Sudan, as specified in the bill, and requires the boards of these retirement systems to sell or transfer any investments in these companies and report to the Legislature regarding these investments.

CalPERS staff is currently in discussions with the author and sponsor of the bill regarding amendments. In its current form the bill does not indemnify the System for losses. Staff does not recommend a position at this time.

The Chair directed staff to confer with the author of the legislation to convey CalPERS' leadership role on this issue, including the Position Statement (attached) adopted pursuant to Agenda Item 5c, and to ask the author to carry the indemnification language outlined in the Position Statement, and to keep the Investment Committee apprised of developments with the legislation.

### AGENDA ITEM 9 – TOTAL FUND, Policy Subcommittee Report

Anne Stausboll, Interim Chief Investment Officer, presented the item.

By consent the Committee approved:

- a. Real Estate Policy, Revision of Global Public Real Estate Equity Securities (Global PREES)
- b. Alternative Investment Management (AIM) Policy, Revision of AIM Program to Revise Benchmarks

# AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item.

The Committee accepted the information report. The total market value of the fund as of March 31, 2006, was approximately \$207.1 billion and the total book value was approximately \$161.3 billion.

# AGENDA ITEM 10b – GLOBAL FIXED INCOME, Consultant Review of Fixed Income Unit Internal Currency Program

Anne Stausboll, Interim Chief Investment Officer, presented the item.

The Committee accepted the information report.

### AGENDA ITEM 11 – DRAFT JUNE 2006 AGENDA

The Committee accepted the proposed June 19, 2006 agenda.

At this point John Hiber stated that "out of an abundance of caution and consistent with state law conflict rules, and on behalf of the Treasurer, I will recuse myself from Investment Committee Closed Session Agenda Item 3a [R Street Subcommittee Report, CalPERS v. City of Sacramento, et al] because of a conflict of interest under Government Code Section 87100."

#### AGENDA ITEM 12 – PUBLIC COMMENT

There were no comments from the public.

The meeting recessed at 10:40 a.m. Because this was Anne Stausboll's last meeting as Interim Chief Investment Officer, a reception was held in her honor.

The meeting adjourned at 11:50 a.m.

The next meeting of the Committee is scheduled for June 19, 2006 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer

#### **Position Statement**

- 1) The CalPERS Investment Committee is deeply concerned over the atrocities and human rights violations occurring in Sudan. CalPERS has and will continue to exercise leadership in addressing this critical issue.
- 2) CalPERS believes that companies that do business in Sudan may thereby be unwittingly furthering or condoning the egregious human rights violations that are occurring in Sudan. A company associated with the atrocities taking place in Sudan poses a serious risk to creating sustainable and responsible long-term value.
- 3) CalPERS believes that constructive engagement is the most powerful tool investors can use to effect change at those portfolio companies whose corporate governance, social, or environmental practices could lead to value destruction. Divestment is a tool that must be used sparingly; nonetheless, divestment remains an option.
- 4) No definitive list of companies doing business in Sudan currently exists. We strongly urge the Federal Government to take responsibility for publishing a list for all shareowners, because it is the one credible centralized source with the capability of understanding national security and human rights implications of company operations as well as directing appropriate prohibitions and sanctions against these companies. In June 2005, CalPERS and 49 other institutional investors formally urged the U.S. Department of State, the U.S. Department of Commerce, the U.S. Department of the Treasury, and the U.S. Securities and Exchange to provide guidance on this matter. Although the federal government has not yet provided the requested guidance, CalPERS will continue to urge them to do so.
- 5) CalPERS notes that we currently own none of the securities in the nine companies from which the Regents of the University of California voted on March 16, 2006 to divest subject to indemnification. Companies identified by UC for divestment were defined as those which were clearly shown to be providing monetary or military support to the Sudan government, while showing little or no interest in the violence in Darfur or in helping to improve the welfare of the Sudanese people. On April 6, 2006, CalSTRS approved a motion stating that "It is the intent of the Board to move forward to divest its holdings from companies identified as doing business with the Government of Sudan, taking into consideration the same general criteria utilized by the UC Regents and subject to the investment staff determining that such action would be prudent and consistent with the System's fiduciary duties and that suitable alternative investments would be available. . . . Such action would be subject to the indemnification of the Board members, consistent with the indemnification of the UC Regents."

6) CalPERS will not acquire any holdings in the nine companies identified for divestment by the Regents of the University of California until the government of Sudan halts the genocide, as determined by the State Department and Congress or if the United States revokes its current sanctions on Sudan, and subject to the enactment of legislation providing for the indemnification of CalPERS and individual board members, and the officers, agents, and employees of the system for all costs, liability, and losses arising from this decision.

- 7) With respect to securities we may own in additional companies identified as doing business in Sudan, CalPERS strongly believes the best course of action is a strategy of constructive engagement. This engagement is designed to understand the extent and implications of the company's presence in Sudan, determine the impact of the company on human rights in Sudan, and urge companies to work with pertinent entities to bring an end to human rights violations in Sudan.
- 8) CalPERS' constructive engagement plan is consistent with Assembly Concurrent Resolution 11 (ACR 11) (Dymally), supported by the CalPERS board and adopted by the Legislature in 2005, which encouraged CalPERS and CalSTRS, within their fiduciary responsibilities, to encourage companies in which employee retirement funds are invested that are doing business in Sudan to act responsibly and not take actions that promote or otherwise enable human rights violations in Sudan. CalPERS has and will continue to actively collaborate with other institutional investors to take advantage of our collective voice as shareowners.
- 9) Nothing in this statement should be considered as a precedent for any future actions by this system.